THE DOCTRINE OF RENT, AND THE RESIDUAL CLAIMANT THEORY OF WAGES.

It is now more than three years since I troubled the readers of the *Quarterly Journal of Economics* with an article on the distribution of wealth; and the editor of the *Journal* is kind enough to think that it is not too early for me again to be heard regarding those peculiar views which have come to be known as the "Residual Claimant Theory." The discussion of the problem of distribution has proceeded very actively in the interval; and the theory in question has been made the subject of many remarks and criticisms, some of them just, some of them appearing to the present writer to embody certain misapprehensions of what was intended, or to result from a failure to observe the conditions upon which alone the theory would ever have been advanced. References to these latter, and some additional explanations of the suggested view of the relation of wages to the other shares in distribution, will, it is hoped, not exhibit the present writer as unduly sensitive to the criticism which he certainly should have anticipated. It is to be noted that the point of most active discussion has moved considerably during the past three years, and that it is not against the doctrine of business profits as analogous to the rent of land, but against the "residual claimant" doctrine of wages, that the most recent attacks have been directed.

I. In this *Journal* for January of the present year, Mr. Bonar has an article on "The Value of Labor in Relation to Economic Theory," which seems to me to do some injustice to the doctrine in question.

(*a*) Regarding the suggested correspondence between

increased productiveness of labor and increased wages, Mr. Bonar says, "By Walker's principles, the correspondence should be automatic" (p. 153, note). I am wholly at a loss to see how a writer so candid and so careful as Mr. Bonar could make such a statement. Not only was *The Wages Question* (1876) written largely on the theme that, if the laborer would realize his highest economic advantage, he must struggle for it without ceasing, the statement being again and again repeated that, if the laborer does not seek his interest, he will, in greater or less degree, lose his interest; not only has every subsequent work of mine insisted upon this theme, but in the first presentation of the residual claimant theory, in the *Political Economy* of 1883, the acquisition by the laborer of the possible gain resulting from the increased productiveness of labor was made conditional* upon his being alert, active, and, so far as should be consistent with industrial peace, aggressive in the pursuit of his own economic advantage. After stating the position which the laborer appeared to me to occupy in the distribution of wealth, I followed this with the highly emphasized question, "WHAT WILL HE DO WITH IT?" and proceeded to argue that, in order to make good this ground of vantage, the laborer must follow the employer sharply up with a close and unrelenting competition; and, at every stage of that and of each subsequent statement of this view, "full and free competition" was made the essential condition under which alone the results shown to be possible would or could be realized.

It seems strange, therefore, to read in Mr. Bonar's arti-

* "In determining how much, in the shape of rent, interest, and profits, shall be taken out of the product before it is turned over to the laboring class to have and to enjoy, I hold that the only security which the laboring class can have that no more will be taken than is required by the economical principles governing those shares, respectively, is to be found in full and free competition, each man seeking and finding his own best market, unhindered by any cause, whether objective or subjective in its origin. If the laborer does not seek his interest, he loses it in greater or smaller measure." Page 285.

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that theory with this remark, it must be understood that he regards this "special difficulty" as insurmountable.

It is true that this apparent inversion of relationship has proved a very serious obstacle to the acceptance of the view of the residual nature of wages, alike by the public mind and by many economists; but is the fault with the theory or with those who regard it? The rent of land is, by force of contract, taken out of the produce before it is even ascertained that the cost of production will be met. But what controls the contract of rent? Is it not the estimated productiveness of the soil? And, if the experience of the cultivator during the continuance of the lease shows that this productiveness has been wrongly estimated, will not the new contract of rent be made with reference to a better knowledge of the capabilities of the land? So, in the case of labor and wages, while, in any individual transaction, the laborer does by the force of contract receive only stipulated wages,* yet in the new contract of labor, whether the next month or the next day, he is at liberty to make, and, if I am not mistaken in what I have undertaken to show regarding his relation to the product of industry, he is in a position to enforce † a demand for wages which shall take up any gain in productive power, not involving a resort to poorer soils or to an inferior grade of employers or requiring any larger use of capital. That such an increase of production may take

* This was clearly expressed in the foregoing terms in my *Political Economy* of 1883 (p. 265). Yet Mr. Gunton in his latest work writes as if I had completely overlooked this apparent inversion of relationship, and attributes to me "an astonishing amount of inconsistency" in that I speak of the laborer as the residual claimant upon the product of industry, having previously exhibited him as receiving wages stipulated in advance. *Principles of Social Economics*, p. 179.

Mr. Gunton thought better of my work when, in his reply to Karl Marx, he adopted entire, though without acknowledgment, my statement of the origin and source of profits. See *Political Science Quarterly*, vol. iv. pp. 577–581.

† "It is the competition of employers that, under the free working of natural law, gives to the marginal man *the full amount of his product.*" Professor J. B. Clark, *Quarterly Journal of Economics*, vol. v. p. 309.

place (as, for instance, through the laborer's quickened intelligence, his higher skill, his greater carefulness in the use of tools and materials, his augmented energy due to the hope of larger returns) has been abundantly proved. In a word, what this alleged contradiction in terms, inconsistency, inversion of relationship, or however it may be characterized, amounts to is simply this: I hold that *the laborer's wages* are stipulated in advance, and, indeed, that this is of the very essence of wages. On the other hand, I hold that *the laborer's position* in the industrial order is such that, if he vigorously asserts his interests, he can continuously raise his stipulated wages to the full height of his increased efficiency in production.

(*c*) Another misapprehension which has appeared regarding the "residual" theory of wages relates to an assumed intention to exhibit this as a universal condition. It may be that this has been the fault of the author in not distinctly disavowing such an intention, which, indeed, never existed. The author at no time thought of applying such a rule to communities like China or India, or even to many of the more degraded laboring populations of Europe; and he deemed this sufficiently shown by his frequent assertions that the laboring class could only make good their claim to all the "residue" of the product through the exercise of the highest intelligence, energy, and acquisitiveness, and also and especially by refraining from doing themselves an injury through excessive reproduction, leading to over-population. (*Political Economy*, 1883, p. 268.)

It has been objected to the theory in question that, conceding the views presented regarding the source of rent and of profits, there is no more reason for attributing the character of a residual claimant to labor than to capital; and this is perfectly true, provided the laboring class are placed at a disadvantage, economically, by excess of numbers over the opportunities of employment, or by a

painfully slow increase of capital, due either to the severity of natural conditions or to social violence and disorder. In the latter case, it would be the capitalist, not the laborer, who would have "the upper hand on the stick." In fact, however, in all well-ordered communities, enjoying large natural resources, the accumulation of capital tends to outrun the increase of population; while the ability of capitalists (not of employers) to combine so as to prevent the rate of interest from falling, under the pressure of a rapidly increasing supply, is conspicuously less than the ability of laborers so to combine as to hold up the rate of wages. It was simply and solely on account of this general economic advantage in such communities that the mastery of the situation was attributed to the laboring class, who would thus be enabled, in the unceasing strain over the product of industry, to take up all the rope that might be paid out through any amelioration of the conditions of production. Does not the economic history of England and the United States during the past thirty or fifty years show that precisely this has been done?

II. In the April number of this *Journal*, Mr. Hobson, of London, presents his "Law of the Three Rents," the first effect of which he declares to be that "it completely destroys what may be termed the 'residuary legatee' treatment of distribution" (p. 279). Mr. Hobson does not antagonize the view of the source of business profits presented in the April number of this *Journal* for 1887. On the contrary, he appears in a general way to accept it as valid.* The way in which Mr. Hobson would

* "It has been recognized that rent of land is not an element in the price of agricultural produce. So General Walker has proved that 'profits do not form a part of the price of manufactured products'; for, as he says, 'the profits are drawn from a body of wealth which is created by the exceptional abilities (or opportunities) of those employers who receive profits, measured from the level of those employers who receive no profits.'" *Quarterly Journal of Economics*, vol. v. p. 272.

"upset entirely the position of wages as a residual claimant" (p. 264) is by establishing the proposition that capital and wages are also subject to the law of rent, leaving thus all the claimants upon the product of industry equally subject to economic strain, the economic advantage or disadvantage of each in any given situation being determined purely by supply and demand. The significance of Mr. Hobson's contribution to the philosophy of distribution depends entirely upon his success in establishing this proposition. He calls his article "The Law of the Three Rents," and it is only as he shall prove that the returns to labor and to capital obey the same rule as the returns to land that the residual claimant theory will be affected.

Mr. Hobson's method is as follows. He assumes the existence of a body of laborers who, by their nature and industrial qualifications, are only enabled to exact a minimum wage, which, having reference to English conditions, he takes for illustration at 15 shillings a week. He then asserts the existence of bodies of superior labor, the compensation of which rises, grade on grade, from 15 shillings upward through a wide range. The minimum wage he declares to be, for all economic purposes, equivalent to the no-rent stage in land; and all above that line he holds to be "the rent of ability." In the same way, he assumes the existence of a body of capital which, by its nature and industrial adaptations, is only fitted to earn a minimum interest, which, again having reference to English conditions, he fixes at 3 per cent. per annum. He then asserts the existence of bodies of superior capital, the compensation of which rises, grade on grade, from 3 per cent. upward through a wide range. The minimum interest he declares to be, for all economic purposes, equivalent to the no-rent stage in land and to the 15-shilling stage in labor; and all above that line he holds to be "the rent of capital."

Now, if it were conceded that Mr. Hobson's exposition of the facts of industry in these respects is correct, what would it prove? The essential fact in regard to rent is that it does not enter into the cost of production.* By Mr. Hobson's own view, the wages of labor, at least up to the 15-shilling limit, and the interest of capital, at least up to the 3-per-cent. limit, do enter into the cost of production. Here is all the difference in the world. Mr. Hobson, indeed, gives excellent reasons why a minimum wage and a minimum rate of interest *must* be paid, and thinks that these reasons, which are good enough to justify wages and interest, if they needed any justification, are sufficient to abolish the economic distinction between elements that do enter into the cost of production and elements that do not. He shows, what nobody disputes, that the land keeps itself, and that, therefore, the poorest land need not be paid for, while the poorest labor will not exist without a certain wage, or the least efficient body of capital without a certain rate of interest. But all this simply emphasizes the fact that interest and wages enter into the cost of production and rent does not. Giving good reasons why interest and wages must be paid does not change their relations to the cost of production,† which is the thing we are talking about.

But how about Mr. Hobson's exhibition of grade on grade of labor and grade on grade of capital, corresponding to grade on grade of soils?

What Mr. Hobson says about the rising wages of labor being due to rising productive efficiency is true enough, and would be appropriate to a discussion of Particular

*Except, of course, monopoly rent, the influence of which upon price, whether the price of hops or of anything else, has always been conceded by the Ricardians.

† Professor Clark, as we shall see, in seeking to establish the proposition that the law of rent applies to wages and to interest, takes for his minimum labor so inefficient that it realizes no wages at all — *i.e.*, is not worth employing — and capital so ineffective that it receives no interest.

Wages. I fail to see that it has anything to do with the question of General Wages, under which we inquire what part of the product of industry shall go to labor as a whole. The problem of Particular Wages — *e.g.*, the question why, when a common day laborer receives only 15 shillings (to adopt Mr. Hobson's minimum), a cotton-spinner receives 25 shillings and an iron puddler 45 — is a perfectly simple one. The principles are all open to view on the first glance. So simple is it that economists generally do not even give space to the discussion of the question. There is, in fact, lttle to be added to what Adam Smith said on the subject a hundred and fifteen years ago.

As to the assumption regarding bodies of capital having objective differences among themselves * which create differing rates of remuneration, rising from, say, 3 per cent. upwards, one may well dissent. That different bodies of capital do, in fact, yield different rates of interest is too evident to require proof; but this is due to many causes which are irrespective of the nature of the capital itself. The foremost of these are the following: —

(*a*) *Differences in Risk.*—Much of what appears to be interest is nothing but insurance of the principal. For example, it was for a long time as easy to place capital at twelve per cent. in Iowa as at eight per cent. in Chicago or six per cent. in New York. These differences of interest were not due to objective differences in the bodies of capital so invested. The New York capitalist drew checks upon the same bank deposit in making these successive investments. Which part of his deposit would go to Chicago, which should go to Iowa, which should stay at home, he neither knew nor cared: that would depend on which check arrived first at the bank. Nay, with the amount which he retained for use in New York he might

* Mr. Hobson speaks of pieces of capital as superior or inferior, of different pieces of capital as "graded in quality," etc.

put some into "governments" at five per cent., some into first-class mortgages at six, some into second-rate mortgages at eight, while "shaving notes" on the street at all the way from six to twenty. The bodies of capital so used were indistinguishable.

(*b*) *Miscalculation, on the one hand, or Fortunate Speculation, on the other.*— In buying commodities to be sold again or to be used in personal consumption, a wide range is given to the shrewdness of the purchaser and to the influence of fortune. So, where one buys stock with a view to securing a regular income from it or builds a mill for purposes of manufacture, miscalculation, on the one hand, or fortunate speculation, on the other, may enter to an enormous extent to create differences in the returns to investors, which do not arise at all from original differences in the bodies of capital engaged, but are due solely to the better or worse judgment with which the function of investment has been exercised or to the kindness or unkindness of fortune; possibly, also, to the effects of force or fraud.

In this matter, the usages of business men correspond to the view of the economist. If a manufacturing corporation has invested $100,000 in a factory which, by reason of miscalculation or misadventure, proves to have the capacity of earning but $3,000 a year net, the shares of that corporation sink to one-half their par value, so that, while the nominal capital on its books remains $100,000, its capital as known to the market is but $50,000; that is, the whole of it can be bought for that sum. If, on the other hand, by reason of exceptional natural advantages shrewdly taken advantage of or by superior management, another factory, near at hand, of the same size and capacity, built perhaps in the same year, with bricks drawn from the same yard, shows that it can earn $12,000 a year net, the shares rise to $200, and the real capital of the corporation becomes $200,000; that is, its capital

stock will bring that sum in the market, and upon this amount this factory earns but 6 per cent., the same as the other.

We get an even clearer view of the case in contemplating those additions of capital which are required yearly to keep the two factories in good condition, or which may occasionally be called for to enlarge their capacity. The factory which is earning but 3 per cent. on the original investment is obliged to pay 6 for all the additional capital it obtains. The factory which is earning 12 per cent. on the original investment likewise borrows at 6. In regard to all that vast amount of fresh capital yearly available for investment, whether to keep up existing industrial and commercial enterprises or to extend them, or to create new ones in the same or in newly opened lines, the rule is that interest tends constantly and strongly to a uniform rate,* except for differences caused by the differing risks of different kinds of investment, as estimated, rightly or wrongly, by the lender.

(*c*) *Disguised Rent, Disguised Profits, or Commercial "Good Will."*— The instances most relied on to show the wide range of interest generally contain some other element than interest, even after making allowance for the insurance of the principal, and even after admitting the effects of business miscalculation, on the one hand, and of fortunate speculation, on the other. Take the case of a factory placed forty years ago upon a New England river. At that time the possible mill-sites of the region were in small demand, and the corporation in question obtained its title to an inexhaustible water power and to an extensive tract of land along the bank, at a very low price. To-day the factory pays its owners double and treble dividends, which are largely rent, as would quickly be made

* "In the industrial field as a whole there is a current rate of interest; and, by making now more of one thing and now more of another, society causes each to earn, in the long run, about the prevailing percentage." Professor J. B. Clark in the *Quarterly Journal of Economics*, vol. v. p. 292.

to appear if the corporation held its water power, its factory-site, and the land on which stands its village, by a lease about to expire. Even more interesting is the instance of the breweries mentioned by Mr. Bonar as declaring enormously high dividends. Here we have, in addition to the elements previously mentioned, the rent of springs or streams of water of a quality peculiarly adapted to making good beer; while commercial "good will," the reputation of the product arising from generations of use, enters to create almost fabulous gains. Disguised profits also enter into the dividends of many companies or corporations which have had the good fortune, good sense, and good feeling to retain, as managers, men of the highest business ability, born captains of industry, who yet, by considerate treatment and high salaries (the force of habit and perhaps pride in the works concurring), are induced to remain long after they have reached the pitch of reputation which would give them command of the situation if they chose to set up as manufacturers for themselves.

It might seem as though,—having expressed my reasons for holding, first, that, were Mr. Hobson's exposition of the facts of industry admitted to be correct, these would not justify the extension of the law of rent to wages and interest; and, secondly, that the exposition itself is erroneous, especially in regard to the allegation of objective differences among the bodies of capital applied to production, creating corresponding differences in the returns to these bodies of capital, respectively,—I need not further occupy the space of the *Journal* with comments upon Mr. Hobson's article. But there are certain things brought out incidentally to his argument, or introduced in illustration of his successive points, which seem to require a brief reference.

(1) Mr. Hobson does a grave injustice to the familiar economic argument by which it is established that the rent of land does not enter into the price of produce. He

represents the economist as showing that, if "a landlord" were to remit his rents, the tenant, or, if not he, then the miller or the baker, would be enriched thereby, while the price of wheat, or, if not of wheat, then of flour or of bread, would remain as high as before. He then assumes an agricultural laborer refusing wages, and shows that the price of the produce, *in the particular case* (p. 265), would be unaffected thereby, thus apparently putting land and labor in the same relation to the cost of production. But this is unfair; for, when the economist says "a landlord," in this connection, he means every landlord and all landlords. Were all landlords to remit rents, the price of produce would not be affected, and all the foreborne payments would go to enrich the tenants. But, if all agricultural laborers were to refuse wages, the cost of production would at once be reduced one-half, two-thirds, three-quarters, or nine-tenths, according to the state of the art of agriculture in the district concerned.

(2) Mr. Hobson asserts (with reference to my view of the source of business profits) that there are some businesses "which no employer will consent to carry on without a definite rate of remuneration as earnings of management" (p. 273). It would be interesting to hear which these businesses are; to learn what are the departments of industry in which many employers do not, first or last, fail; in which many others do not, after much labor and anxiety, have to be content with merely saving their capital; in which "a definite rate of remuneration" is secured to all who enter them. Especially should we here like to know if any one of these businesses has ever been set up in the United States. Is it banking, or hotel-keeping, or liquor-selling, or the grocery business, or tailoring, or the iron manufacture?

(3) In his closing paragraph (pp. 287, 288) Mr. Hobson charges those who present the "residual claimant" theory with catering to a popular passion for an easy,

cheap, simple, "rule-of-thumb" mode of accounting for the distribution of wealth. This charge might perhaps have been brought, with some show of reason, against that theory of distribution which ruled American and English political economy before the residual claimant theory was advanced,—the theory, namely, of the wages fund. There, indeed, distribution was made easy, and the matter of wages was reduced to a mere "sum" in long division. But the partition of the product of industry by the theory which Mr. Hobson attacks is no mere sum in division, no result of rule-of-thumb measurement, no play of clock-work. That theory recognizes the whole industrial body as continually in strain over the division of the product. It takes the fullest account of the moral and intellectual elements of supply and of demand. It puts each class that presents a claim to the product upon its mettle to make good that claim by strenuous, unfailing effort, declaring that whoever fails to pursue his interest must lose his interest. It reaches out to comprehend immense possibilities of good and evil by establishing the proposition, in bold defiance of the orthodox economy, that in industry there are gains which no man loses, as well as losses which no man gains. It introduces a dynamic element of the highest importance when it announces, as an economic law, that to him who hath shall be given, and from him that hath not shall be taken away even the little he seemeth to have.

(4) After so much that must seem ungracious criticism of Mr. Hobson's paper, I desire most heartily to express my sense of the value of his discussion (pp. 280–287) of the influence exerted upon distribution, in the case of an increase of production, by the comparative ease or difficulty of calling in additional quantities of one or another or of all of the several factors of production.

III. In the same number of the *Journal* which contains Mr. Hobson's article on "The Law of the Three

Rents" appears a paper on "Distribution as determined by a Law of Rent," from the pen of Professor J. B. Clark, of Smith College, on which my present purpose requires me to comment. Inasmuch as I shall have to dissent widely from the views of this most scholarly, candid, and laborious economist, I desire to say here that there is much in the article which is of high value,—much, especially, bearing upon the questions of production and consumption (according to the old divisions of political economy) which needs to be said, and could not be better said than it has been by Professor Clark. Yet, as to the law of distribution laid down, I must take exception.

In his note on these two articles, the editor of the *Journal* speaks of them as reaching "substantial identity of conclusion." Is not this a mistake? Is not an impression to this effect — natural enough on first scanning the two articles — due to the common use of certain terms, which, however, the two writers use in widely different senses? Mr. Hobson, indeed, speaks of the law of rent as applying to labor and to capital as well as to land; and so does Professor Clark. But the former by wages means payments above the minimum received by common day labor (say 15 shillings a week), and by interest payments above the minimum rate, say 3 per cent. per annum. On the other hand, Professor Clark seeks to extend the law of rent to all employed labor and to all capital in use. He does, indeed (pp. 314, 315), refer to differences in the productive power of laborers and in the productive efficiency of different bodies of capital; but it is only after he has fully reached "the law which fixes the rate of wages and the aggregate amount of interest" (p. 311). Those differences are not at all of the essence of his theory, while Mr. Hobson's whole theory is built upon them. Indeed, Professor Clark, throughout his discussion of capital, asserts its strong tendency towards a uniform rate of interest. All which he urges for the iden-

tification of wages and interest with rent would hold good, were all laborers uniformly efficient, and were all separate bodies of capital intrinsically of equal productive force. Under such a condition, Mr. Hobson's argument would be entirely without significance.

Professor Clark's method of proving that "interest as a whole is rent, and even wages as a whole are so," both of these incomes being "differential gains," and both being "gauged in amount by the Ricardian formula" (p. 289), is to assume "a fixed fund of pure social capital" ("invested partly in land and partly in made instruments") and to consider the application thereto of an increasing labor force (pp. 304–311); secondly, to assume a labor force fixed in amount and to view the effects of increasing the fund of capital which it uses (p. 311). In the former case, he finds that "the pure capital is like the field [that is, like any field], in that it is subject to a law of diminishing returns. A few men using a large fund create a large product per man: new men joining the force add less to the output, and the last man who comes adds least of all. Each earlier worker creates a surplus over and above the amount created by the last one, and the sum of all these surpluses is the rent of the fund" (p. 305). In the second case, "it is the successive increments of capital that are now subject to the law of diminishing returns. . . . Of a succession of units of pure capital brought into use in connection with a fixed labor force, each one adds less to the output of industry than does any of its predecessors. . . . All the earlier units [now] create surpluses over and above the standard set by the product of the final unit, and the sum total of these surpluses is the rent of the labor force. It is the aggregate of the differential gains resulting from the application, in connection with the fixed labor force, of the earlier increments of capital" (pp. 311, 312).

(1) Can we concede the correctness of Professor Clark's

view of the processes of industry? Can we admit the legitimacy of his method of demonstration?

(*a*) In the first place, Professor Clark seems to be in error in assuming that the principle of diminishing returns begins to operate from the very start in the movement towards increasing production. Thus he says: "Put one man only on a square mile of prairie,* and he will get a rich return. Two laborers on the same ground will get less per man; and, if you enlarge the force to ten, the last man will perhaps get wages only" (p. 304). Can there be any doubt that here is at least a technical mistake? Will not two men upon a square mile of good land produce more than twice as much as one man, owing to the opportunities for combination and to the virtue of the division of labor? Will not four men produce more than twice as much as two, owing to the further extension of these principles? Up to ten men to the square mile, and possibly even beyond this limit, will not an increase in the cultivating force steadily enhance, not merely the total product, but the product per man?

It may be said that this is merely a technical error; that, had Professor Clark taken for his unit, *e.g.*, a "quarter section," or eighty or sixty acres, his description of the effects of increasing the amount of labor engaged upon the land would hold good. But is there in this matter merely a technical mistake? To assume a smaller unit of land would, indeed, avoid the contradiction to Professor Clark's theory found in the fact that *returns do not diminish* prior to such an occupation of the soil as gives each man a body of land just large enough for him to cultivate; but how, upon Professor Clark's theory, can we explain the fact that, up to that point, *the per capita returns actually increase?* That theory, so far as I can see, does not recognize the stage of increasing returns at all; yet that

*Mr. Hobson uses this word in a sense not familiar to us. He says, "Land below the margin of employment is waste or prairie" (p. 267).

stage is as real as the subsequent stage of diminishing returns. Throughout most of the agricultural history of our own country it is the former, and not the latter, force which we have seen in action.

(*b*) But, disregarding the earlier stages of the progress towards absolutely enlarged production, in which, it would appear, no one can question that there is a period of increasing per capita returns, how about the correctness of the view that capital and labor are, in their general course, subject to a law of diminishing returns? Professor Clark deems this proved by his illustration of the application, first, of an increasing body of capital to a fixed labor force; and, afterwards, of an increasing body of labor to a fixed fund of capital. But is this method of demonstration legitimate? It is, of course, easy to show that two men with one spade cannot cultivate twice as much land as one man with one spade; that three men with the same spade will cultivate far less than three times as much land as one; and that, when the fourth, the fifth, and the sixth man are successively brought in to use that much wronged implement, the product per man will be about that of the average city laborer on the streets. But why not let each man have a spade to himself, and then inquire whether the per capita product diminishes as the number of laborers increases? In discussing rent, it is true, we assume a fixed quantity of land, for the good reason that the quantity of land *is* fixed by nature, and cannot be increased; while, in most countries, population has actually pressed upon the means of subsistence sufficiently to require cultivation to descend to lower grades of soil, often to very low grades of soil indeed. But, aside from the limit imposed upon human expansion by the chemical capabilities of the soil, there is no reason why capital should not go on increasing indefinitely.

If, then, we are inquiring into the forces which distribute the product of industry, why should we not assume

an increase of capital corresponding to any increase of labor which we may take for the purposes of discussion? In all well-ordered communities, enjoying natural conditions which are reasonably favorable, capital actually does increase as fast as this. If it be so, why should we not hope to discover a great deal more of the truth of the matter by assigning to each laborer a spade, an axe, a hammer, a loom, or a fishing-rod, according to his avocation, and then ask whether, aside from the effects of diminishing returns in agriculture, due to the chemical limitations of the soil, an increase of labor (properly distributed over all the avocations* practised in the community) will result in a diminishing or in a stationary or in an increasing per capita product?

Now, if it be true that capital and labor increasing together and in due proportion do strongly tend towards an increasing return to each unit of labor and capital employed in production, what must we think of the method of demonstration by which it is made to appear concerning each of those, separately, that, as it increases in amount, it does by its very nature come under a law of diminishing returns? How can it be that two forces, each of which, by the very nature of things, acts, as it progresses, at a diminishing rate, shall yet, by being compounded, produce results which not only do not diminish, but actually increase from term to term?

On the point of the tendency of capital and labor, when increasing together, in due proportion,— as, in the natural

*Here is seen the fallacy of Mr. Hobson's illustration (p. 270) of a shopkeeper whose business has profitably employed two men, but who might have to take on a third man at a comparative disadvantage. Very well. But suppose an increase throughout the community of labor and capital to the extent of fifty per cent.,— three to two,— all other shops and all factories and farms and other industries sharing in the expansion, might not the shopkeeper in question find his business so enlarged as to make the services of the third man not less profitable to him than the services of either of his predecessors? And would not a shop employing three men under a competent master be better organized and relatively more efficient than a shop with two assistants only?

course of things, they do,—to produce continually larger and larger bodies of wealth, I entertain the strongest conviction, which nothing in these two papers has in any degree shaken. To that progress, I believe, *nothing in the nature of these agents themselves sets any limits.* Mr. Henry George seems to me perfectly in the right in strongly insisting that, aside from the effects of driving cultivation down to inferior soils, increase of labor does, through the differentiation of functions, the localization of industry, the opportunities offered for the use of specialized tools and machines, and the naturally resulting increase of capital, bring increase of productive power.

I cannot regard the illustration offered by Mr. Hobson of the diminished fruitfulness of the work of a single laborer, protracted beyond certain limits which are fixed by his physiological aptitudes, as having the slightest effect to prove the proposition that "labor" is necessarily subject to a law of diminishing returns. It cannot be said that "labor" meets a diminishing return unless it is true that a larger amount of labor *performed by a corresponding number of laborers* is subject to that condition.

It seems to me that what has defeated Professor Clark's effort to reach a new law of distribution in the article under consideration is his uniting under a single title things which are essentially different, not only in popular estimation, but in their very nature. He starts out by declaring that wages and interest together constitute the entire product of industry.* In order to achieve such "fierce abridgment" of the problem of distribution, he is obliged to group together both land and "made instruments" of production, the former of which is naturally limited in amount and quality, while the latter are susceptible of practically illimitable multiplication and diver-

* Except that which he terms "pure profit"; *i.e.*, the product of unbalanced industrial forces, which come into existence and continue in existence "only while society is changing" (p. 289).

sification. In the same way, he includes in "labor" both the services of the employed and the services of the employer, and in "wages" the reward of both those classes of services indiscriminately. Now, if the view of the "Origin of Business Profits," presented in this *Journal* for October, 1887, contains any degree of economic truth, we have in Professor Clark's labor and wages two classes of services having different industrial natures and two kinds of remuneration subject to different laws. The amount of effective business ability is not, indeed, like the amount of land, fixed by nature for all time; but at any given time, in any given community, not only is it then and there determined in amount, but that amount is distinctly below the industrial needs of that community, if raised far above the savage state. Consequently, the fortunate possessors of that power of organizing and conducting with success considerable business enterprises, whether in agriculture, in manufacture, in commerce, or in transportation, are able to reap for themselves gains which popular usage denominates profits,—gains too large to be treated by the economist as not worthy of separate account; gains so large as to constitute the real *gravamen* of the discontent and anger of the working classes; gains which are not of the same nature as wages, and which cannot, without loss at once of public interest and scientific accuracy, be merged in the mass of wages.

Dropping now all further allusions to business profits, let me say that the perusal of the articles of Mr. Hobson and Professor Clark has only strengthened my conviction that the doctrine of rent, the old-fashioned doctrine of the rent of land, is the corner-stone of the theory of distribution. Therefore, the extension of the term "rent" to include wages and interest, and its use in such connections as "consumer's rent" and "producer's subjective rent," seem to me only calculated to confuse the public mind and to lessen the popular interest in political economy.

FRANCIS A. WALKER.